

KEARSLEY COMMUNITY SCHOOLS  
FLINT, MICHIGAN  
AUDIT REPORT  
FOR THE YEAR ENDED JUNE 30, 2005

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*Lewis & Knopf, CPAs, P.C.*

Serving You with Trust and Integrity

August 24, 2005

## INDEPENDENT AUDITOR'S REPORT

To the Board of Education of  
Kearsley Community Schools

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kearsley Community Schools, as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Kearsley Community Schools' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Kearsley Community Schools as of June 30, 2005, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report under separate cover dated August 24, 2005 on our consideration of the School District's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages II – VII and 19, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Kearsley Community Schools' basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Lewis & Knopf P.C.*

LEWIS & KNOPF, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS

KEARSLEY COMMUNITY SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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Kearsley Community Schools, a K-12 school district located in Genesee County, Michigan, is in its second year of implementation of the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34) with the enclosed financial statements. The Administration's Discussion and Analysis, a requirement of GASB 34, is intended to be the Kearsley Community Schools' Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2005.

Generally accepted accounting principles (GAAP), according to GASB 34, requires the reporting of two types of financial statements: District Wide Financial Statements and Fund Financial Statements.

**Fund Financial Statements:**

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Service and Athletics Funds are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

Governmental funds – All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

**District Wide Financial Statements:**

The District wide financial statements are full accrual basis statements. They report all of the District's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and obligations of the District are reported in the Statement of Net Assets of the District wide financial statements.

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

KEARSLEY COMMUNITY SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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**District Wide Financial Statements:** (Continued)

These two statements report the Kearsley Community Schools net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the School District’s financial health or financial position. Over time, increases or decreases in the School District’s net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District’s operating results. However, the School District’s goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities for the School District, which encompasses all of the School District’s services, including instruction, support services, community services, athletics, and food services. Property taxes, unrestricted State aid (foundation allowance revenue), and State and federal grants finance most of these activities.

**The School District as Trustee – Reporting the School District’s Fiduciary Responsibilities**

The School District is the trustee, or fiduciary, for its student activity funds and its private purpose trust funds. All of the School District’s fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the School District’s other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**SUMMARY OF NET ASSETS:**

The following summarizes the net assets at the fiscal years ended June 30, 2005 and 2004:

**NET ASSETS SUMMARY**

	<u>2005</u>	<u>2004</u>
<b><u>ASSETS</u></b>		
Current Assets	\$11,710,743	\$11,131,433
Non-Current Assets	<u>10,909,981</u>	<u>9,840,539</u>
<b><u>TOTAL ASSETS</u></b>	<b><u>\$22,620,724</u></b>	<b><u>\$20,971,972</u></b>
<b><u>LIABILITIES</u></b>		
Current Liabilities	\$7,339,076	\$6,741,052
Long-Term Liabilities	<u>438,875</u>	<u>1,024,789</u>
Total Liabilities	<u>\$7,777,951</u>	<u>\$7,765,841</u>
<b><u>NET ASSETS</u></b>		
Invested in Capital Assets - Net of Related Debt	10,317,560	8,774,893
Restricted - Capital Projects	261,961	272,762
Unrestricted	<u>4,263,252</u>	<u>4,158,476</u>
Total Net Assets	<u>\$14,842,773</u>	<u>\$13,206,131</u>
<b><u>TOTAL LIABILITIES AND NET ASSETS</u></b>	<b><u>\$22,620,724</u></b>	<b><u>\$20,971,972</u></b>

KEARSLEY COMMUNITY SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**RESULTS OF OPERATIONS:**

For the fiscal years ended June 30, 2005 and 2004, the District wide results of operations were:

	<u>2005</u>	<u>2004</u>
<b><u>REVENUES</u></b>		
<u>General Revenues:</u>		
Property Taxes Levied for General Operations	\$1,635,339	\$1,548,770
Property Taxes Levied for Capital Projects	1,171,959	1,112,843
State of Michigan Unrestricted Foundation Aid	24,451,004	23,909,907
Other General Revenues	<u>501,189</u>	<u>422,655</u>
Total General Revenues	\$27,759,491	\$26,994,175
<u>Operating Grants:</u>		
Federal	1,530,691	1,405,472
State of Michigan	1,546,041	1,388,363
Other Grants	<u>502,677</u>	<u>236,937</u>
Total Operating Grants	\$3,579,409	\$3,030,772
<u>Charges for Services:</u>		
Food Service	504,303	558,632
Athletics	94,881	99,341
Daycare	569,434	555,771
Other Charges for Services	<u>180,197</u>	<u>153,326</u>
Total Charges for Services	<u>\$1,348,815</u>	<u>\$1,367,070</u>
Total Revenues	\$32,687,715	\$31,392,017
<b><u>EXPENSES</u></b>		
Instruction & Instructional Support	18,304,087	16,643,734
Support Services	10,009,538	10,902,495
Community Services	49,575	29,939
Food Service	966,581	1,079,693
Athletics	553,702	598,706
Daycare	562,513	508,050
Other Capital Projects	174,078	26,190
Interest on Long-Term Debt	20,643	39,426
Depreciation	<u>410,356</u>	<u>386,383</u>
Total Expenses	<u>\$31,051,073</u>	<u>\$30,214,616</u>
<b><u>INCREASE IN NET ASSETS</u></b>	\$1,636,642	\$1,177,401
<b><u>BEGINNING NET ASSETS</u></b>	<u>13,206,131</u>	<u>12,028,730</u>
<b><u>ENDING NET ASSETS</u></b>	<u><u>\$14,842,773</u></u>	<u><u>\$13,206,131</u></u>

KEARSLEY COMMUNITY SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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## **GOVERNMENT- WIDE FINANCIAL ANALYSIS**

### Analysis of Financial Position:

During the year ended June 30, 2005, the District's Total Net Assets increased by \$1,636,642 to a total of \$14,842,773. The largest portion of the net assets are the District's investment in capital assets. Net assets (invested in capital assets, net of related debt) increased by \$1,542,668 during the year due to purchases of new capital assets and principal payments on related debt exceeding depreciation. The District's Unrestricted Net Assets increased by \$104,776 during the year and the restricted portion of the net assets decreased by \$10,801. The restricted Net Assets consist of the Investment in Capital Assets-net of related Debt, the restricted debt retirement funds that may only be used to pay bonded debt and restricted capital projects funds that may only be used to fund capital projects. The unrestricted net assets may be used to fund the educational services provided to students.

### Analysis of Results of Operations

The District's overall revenues exceeded its expenses for the year by \$1,636,642. The total revenues increased by \$1,295,698 or 4% over last years amounts. The major changes were an increase of 67.93 FTEs in the September 2004 student count and increased state and federal grant allocations. Expenditures increased by \$836,437. Major changes were due to the purchase of new school buses, abatement and replacement of ceiling tiles at the middle school, boiler replacement and parking lot repaving.

## **FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS**

### Analysis of Financial Position

The focus of the District's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. An analysis of changes for the governmental funds is as follows:

#### General Fund

The District's general fund is the chief operating fund of the district. Unreserved fund balance for the general fund increased by \$84,866 during the year with the increase coming primarily from an increase in cash. Revenues for the year increased by \$1,253,063 primarily from additional state aid due to an increase in the September 2004 student count and increased state and federal grant awards. Expenditures and other financing uses increased by \$1,514,035, primarily from the purchase of school buses and abatement and replacement of ceiling tiles at the middle school. The major source of general fund revenues is state aid and taxes. An analysis is as follows:

1. State of Michigan Unrestricted Aid (Net State Foundation Grant)

The State of Michigan aid, unrestricted, is determined with the following variables:

- a. State of Michigan State Aid Act per student foundation allowance
- b. Student Enrollment - Blended at 75 percent of current year's fall count and 25 percent of prior year's winter count
- c. The District's non-homestead tax levy

2. Per Student, Foundation Allowance:

Annually, the State of Michigan establishes the per student foundation allowance. The Kearsley Community Schools foundation allowance was \$6,700 per student for the 2004-2005 school year.



KEARSLEY COMMUNITY SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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**FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS (Continued)**

Analysis of Financial Position (Continued)

General Fund (Continued)

3. Student Enrollment:

The District's student enrollment for the fall count of 2004-2005 was 3,941 students. There was an increase of 46 of students from the prior year.

4. Property Taxes Levied For General Operations (General Fund Non-Homestead Taxes)

The District levies 18.0 mills of property taxes for operations (General Fund) on Non-Homestead Properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

The District's non-homestead property tax revenue for the 2004-2005 fiscal year was \$1,629,231, an increase of \$72,208 from the prior year.

**GENERAL FUND BUDGETARY HIGHLIGHTS:**

**GENERAL FUND BUDGET VS. ACTUAL**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Actual &amp; Original Budget %</u>	<u>Variance Actual &amp; Final Budget %</u>
Revenue	\$28,720,559	\$29,962,576	\$29,859,088	3.96	(0.35)
Expenditures	28,720,559	29,962,576	29,774,222	(3.67)	0.63
<u><b>TOTAL</b></u>	<u><b>\$0</b></u>	<u><b>\$0</b></u>	<u><b>\$84,866</b></u>		

**ANALYSIS OF BUDGETS:**

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, Kearsley Community Schools amends its budget during the school year. The June, 2005 budget amendment was the final budget for the fiscal year. There were no significant variations between the original and final budget.

The variances between the actual revenues and the original and final amended budgets in the General Fund are due primarily to increased state school aid as a result of higher than anticipated student count in September 2004 and adjustments to various state and federal grants.

The variances between the actual General Fund expenditures and the original and final amended budgets are a result of employee salary and benefit adjustments and adjustments to state and federal grant expenditures.

KEARSLEY COMMUNITY SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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**CAPITAL ASSET AND DEBT ADMINISTRATION**

A. Debt, Principal Payments

The District made principal payments on long term debt obligations that reduced the amount of the District's long term liabilities as follows:

	Principal Balance 7-01-04	Increases 6-30-05	Principal Payments 6-30-05	Principal Balance 6-30-05
Bonds Payable	\$302,506	\$0	\$0	\$302,506
Installment Contracts	763,140	0	473,225	289,915
Compensated Absences	182,368	0	23,080	159,288
<u>Total Long-Term Debt</u>	<u>\$1,248,014</u>	<u>\$0</u>	<u>\$496,305</u>	<u>\$751,709</u>

Repayment of debt decreased the School District's long-term principal obligations and, thereby increased the net assets of the School District. The School District repaid \$473,225 of long-term debt during the year ended June 30, 2005.

B. Net Investment in Capital Assets

The District's net investment in capital assets increased by \$1,069,443 during the fiscal year. This can be summarized as follows:

	BALANCE JULY 1, 2004	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2005
Capital Assets	\$23,024,786	\$1,798,436	\$0	\$24,823,222
Less: Accumulated Depreciation	(13,184,247)	(798,223)	0	(13,982,470)
<u>Net Investment Capital Assets</u>	<u>\$9,840,539</u>	<u>\$1,000,213</u>	<u>\$0</u>	<u>\$10,840,752</u>

Significant additions were roofing projects, paving projects, construction of a new football stadium entrance, and the purchase of four new school buses.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, Kearsley Community Schools.

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN  
STATEMENTS OF NET ASSETS  
JUNE 30, 2005 AND 2004

	Governmental Activities	
	2005	2004
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash and Cash Equivalents	\$6,585,296	\$6,240,534
Accounts Receivable	67,839	54,398
Taxes Receivable	3,961	10,784
Due from Other Governmental Units	4,985,257	4,754,214
Inventory	11,493	16,077
Prepaid Expenses	56,897	55,426
Total Current Assets	\$11,710,743	\$11,131,433
<u>NON-CURRENT ASSETS</u>		
Capital Assets	24,823,222	23,024,786
Less: Accumulated Depreciation	(13,913,240)	(13,184,247)
Total Noncurrent Assets	\$10,909,982	\$9,840,539
<u>TOTAL ASSETS</u>	\$22,620,725	\$20,971,972
<u>LIABILITIES</u>		
<u>CURRENT LIABILITIES</u>		
Accounts Payable	1,521,097	747,492
State Aid Note Payable	3,243,237	3,531,014
Salaries Payable	1,675,579	1,641,108
Accrued Expenses	374,270	339,261
Deferred Revenue	212,059	258,952
Current Portion of Long-Term Obligations	312,834	223,225
Total Current Liabilities	\$7,339,076	\$6,741,052
<u>NON-CURRENT LIABILITIES</u>		
Noncurrent Portion of Long-Term Obligations	438,875	1,024,789
<u>TOTAL LIABILITIES</u>	\$7,777,951	\$7,765,841
<u>NET ASSETS</u>		
<u>NET ASSETS</u>		
Invested in Capital Assets, Net of Related Debt	10,317,561	8,774,893
Restricted for:		
Capital Projects	261,961	272,762
Unrestricted	4,263,252	4,158,476
<u>TOTAL NET ASSETS</u>	\$14,842,774	\$13,206,131

See accompanying notes to the basic financial statements.

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN  
STATEMENTS OF ACTIVITIES  
JUNE 30, 2005 AND 2004

FUNCTIONS/PROGRAMS	2005			2004
	Expenses	Program Revenues		Net (Expense)
		Charges For	Operating	Revenue &
		Services	Grants and	Change in
			Contributions	Net Assets
				Net Assets
Governmental Activities:				
Instruction	\$18,304,087	\$180,197	\$2,982,854	(\$15,141,036)
Support Services	10,009,537	0	131,541	(9,877,996)
Community Services	49,575	0	0	(49,575)
Food Service	966,581	504,303	465,014	2,736
Athletics	553,702	94,881	0	(458,821)
Daycare	562,513	569,434	0	6,921
Other Capital Projects	174,078	0	0	(174,078)
Interest - Long-Term Obligations	20,643	0	0	(20,643)
Depreciation - Unallocated	410,356	0	0	(410,356)
<b>TOTALS</b>	<b>\$31,051,072</b>	<b>\$1,348,815</b>	<b>\$3,579,409</b>	<b>(\$26,122,848)</b>
General Revenues:				
Taxes:				
Property Taxes, Levied for General Purposes				2,807,298
State Aid				24,451,004
Grants and Contributions Not Restricted to				
Specific Programs				229,827
Investment Earnings				79,423
Miscellaneous				191,939
Total General Revenues and Transfers				\$27,759,491
Change in Net Assets				\$1,636,643
Net Assets - Beginning - As Restated				13,206,131
<u>Net Assets - Ending</u>				<u>\$14,842,774</u>

See accompanying notes to the basic financial statements.

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2005

	General Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>			
Cash and Cash Equivalents	\$6,043,200	\$542,096	\$6,585,296
Accounts Receivable	67,839	0	67,839
Taxes Receivable	2,210	1,751	3,961
Due From Other Governmental Units	4,968,458	16,799	4,985,257
Due From Other Funds	0	9,867	9,867
Inventory	0	11,493	11,493
Prepaid Expenses	56,897	0	56,897
<u>TOTAL ASSETS</u>	<u>\$11,138,604</u>	<u>\$582,006</u>	<u>\$11,720,610</u>
<u>LIABILITIES</u>			
Accounts Payable	\$1,514,056	\$7,041	\$1,521,097
State Aid Note Payable	3,243,237	0	3,243,237
Due to Other Funds	9,867	0	9,867
Salaries Payable	1,641,927	33,652	1,675,579
Accrued Expenses	366,073	7,407	373,480
Deferred Revenue	212,059	0	212,059
Total Liabilities	\$6,987,219	\$48,100	\$7,035,319
<u>FUND BALANCES</u>			
Reserved For:			
Inventory	0	11,493	11,493
Capital Projects	0	261,961	261,961
Unreserved:			
Undesignated, Reported In:			
General Fund	4,151,385	0	4,151,385
School Service Funds	0	260,452	260,452
Total Fund Balances	<u>\$4,151,385</u>	<u>\$533,906</u>	<u>\$4,685,291</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$11,138,604</u>	<u>\$582,006</u>	<u>\$11,720,610</u>

See accompanying notes to the basic financial statements.

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN  
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2005

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Total Governmental Fund Balances:		\$4,685,291
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$24,823,222 and the accumulated depreciation is \$13,913,240		10,909,982
Accrued Interest on Long-Term Debt		(790)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
Bonds Payable	\$302,506	
Contracts Payable	289,915	
Compensated Absences Payable	159,288	
Total Long-Term Liabilities		<u>(751,709)</u>
<u>TOTAL NET ASSETS -</u> <u>GOVERNMENTAL ACTIVITIES</u>		<u>\$14,842,774</u>

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2005

	General	Other	Total
	Fund	Governmental	Governmental
		Funds	Funds
<u>REVENUES</u>			
Local Sources	\$2,377,880	\$2,363,613	\$4,741,493
State Sources	25,918,535	61,998	25,980,533
Federal Sources	1,144,187	403,016	1,547,203
Total Revenues	\$29,440,602	\$2,828,627	\$32,269,229
<u>EXPENDITURES</u>			
Current:			
Instruction	18,222,101	0	18,222,101
Student Services	2,097,562	0	2,097,562
Instructional Support	1,337,237	0	1,337,237
General Administration	477,612	0	477,612
School Administration	1,941,842	0	1,941,842
Business Administration	381,857	0	381,857
Operation & Maintenance of Plant	2,627,159	0	2,627,159
Transportation	1,410,809	0	1,410,809
Support Services - Other	700,945	0	700,945
Community Services	49,575	0	49,575
Food Service	0	996,895	996,895
Athletics	0	566,720	566,720
Daycare	0	562,513	562,513
Capital Outlay	0	1,245,283	1,245,283
Total Expenditures	\$29,246,699	\$3,371,411	\$32,618,110
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	\$193,903	(\$542,784)	(\$348,881)
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers from (to) Other Funds	(527,523)	527,523	0
Other Transfers	418,486	0	418,486
Total Other Financing Sources (Uses)	(\$109,037)	\$527,523	\$418,486
Net Change in Fund Balance	\$84,866	(\$15,261)	\$69,605
<u>FUND BALANCE - BEGINNING</u>	4,066,519	549,167	4,615,686
<u>FUND BALANCE - ENDING</u>	\$4,151,385	\$533,906	\$4,685,291

See accompanying notes to the basic financial statements.

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2005

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Total net change in fund balances - governmental funds	\$69,605
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	1,069,444
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Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments reported as expenditures in the governmental funds.	473,225
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Change in accrued interest on long-term liabilities	1,290
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Decrease in accrued compensated absences	<u>23,079</u>
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<u>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</u>	<u><u>\$1,636,643</u></u>
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KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
JUNE 30, 2005

	<u>Trust &amp; Agency</u>	<u>Private Purpose Trusts</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$179,027	\$4,902	\$183,929
Investments	<u>0</u>	<u>115,331</u>	<u>115,331</u>
<u>TOTAL ASSETS</u>	\$179,027	\$120,233	\$299,260
<u>LIABILITIES</u>			
Due to Student Groups	<u>179,027</u>	<u>0</u>	<u>179,027</u>
<u>NET ASSETS - HELD IN TRUST FOR OTHERS</u>	<u>\$0</u>	<u>\$120,233</u>	<u>\$120,233</u>

See accompanying notes to the basic financial statements.

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Private Purpose Trusts</u>
<u>REVENUE</u>	
Donations	\$69,250
Interest	<u>12,188</u>
Total Revenue	\$81,438
 <u>EXPENDITURES</u>	
Scholarship Awards	11,500
Other Expenditures	<u>4,457</u>
Total Expenditures	<u>\$15,957</u>
 <u>CHANGE IN NET ASSETS</u>	\$65,481
 <u>NET ASSETS - BEGINNING OF YEAR</u>	<u>54,752</u>
 <u>NET ASSETS - END OF YEAR</u>	<u><u>\$120,233</u></u>

See accompanying notes to the basic financial statements.

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

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1) REPORTING ENTITY

The accompanying basic financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing arrangements. Based on application of the criteria, the entity does not contain component units.

The District receives funding from local, state, federal and interdistrict government sources and must comply with the accompanying requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" body that has separate legal standing and is fiscally independent of the governmental entities. As such, the Board of Education has decision-making authority, the authority to levy taxes, and determine its budget, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Kearsley Community Schools conform to generally accepted accounting principles as applicable to school districts. The following is a summary of the significant accounting policies:

In June 1999 the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. Certain of the significant changes in the Statement include the following:

A Management Discussion and Analysis (MD&A) section to provide an analysis of the District’s overall financial position and results of operations.

Financial statements prepared with full accrual accounting for all of the District’s activities.

- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements and notes to the financial statements.

A) BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The District’s basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District’s major funds). The government-wide financial statements categorize primary activities as either governmental or business type. All of the District’s activities are classified as governmental activities. Fiduciary funds are not included in the government-wide financial statements.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis and is reported on a full-accrual economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District’s net assets are reported in three parts: invested in capital assets net of related debt; restricted net assets; and unrestricted net assets. The District first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the District’s functions. General government revenues also support the functions. The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants. The net costs by function are normally covered by general revenue (property taxes, state and federal sources, interest income, etc.).

The District does not allocate indirect costs. Inter-fund transactions have been eliminated in the government-wide financial statements.

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

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2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B) BASIC FINANCIAL STATEMENTS - FUND FINANCIAL STATEMENTS

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the general-purpose financial statements in this report, into five generic fund types in two broad fund categories as follows:

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of the District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund

The General Fund is used to record the general operations of the District pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Special Revenue Funds

Special Revenue Funds are used to segregate the transactions of particular activities from regular revenue and expenditure accounts. The District maintains full control of these funds. The District maintains three school service funds: Food Service, Athletic and Daycare Funds.

Debt Retirement Fund

The Debt Retirement Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Sinking Fund

The Capital Projects Sinking Fund records capital project activities funded with Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of §1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan. Voters in the School District renewed \$1.3 mills originally levied in 1998 for another six years now expiring on December 31, 2009 and authorized \$2.0 mills in 2001 for six years expiring on December 31, 2007 to be used for school facility improvement. The Capital Projects Sinking Fund is used to account for the acquisition, construction and renovation of facilities by the School District.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The District's fiduciary funds consist of agency funds which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are used to account for amount held for student and employee groups.

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

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2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS (Continued)

Accrual

Governmental activity in the government-wide financial statements is presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within 60 days of year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt is recognized when due.

Those revenues susceptible to accrual are property taxes, state aid, interest revenue, grants and charges for services. Other revenue is recorded when received.

The District reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the District receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

D) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40 *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury, certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by no less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

E) PREPAID ASSETS

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

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2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F) INVENTORY

On government-wide financial statements are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. Inventory in governmental funds consists of expendable supplies held for consumption.

G) CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of one hundred dollars. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities</u> <u>Estimated Lives</u>
Buildings and Improvements	20 – 50 years
Furniture and Equipment	5 – 10 years
Vehicles and Buses	5 years

H) INTERFUND BALANCES

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities columns of the statement of net assets.

I) COMPENSATED ABSENCES

The School District reports compensated absences in accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences.” Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District’s past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts, if any, are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

J) ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

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2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J) ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS (Continued)

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgements, the noncurrent portion of capital leases, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

K) FUND BALANCE RESERVES

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories.

L) NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

M) ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

N) BUDGETARY DATA

The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established by the Board of Education at the function level. Any budgetary modifications may only be made by resolution of the Board of Education.

The School District follows these procedures in establishing the budgets for the individual funds as reflected in the financial statements.

- 1) Prior to June 30, the Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1.
- 2) A public hearing is conducted during June to obtain taxpayer comments.
- 3) Prior to June 30, the budget is legally enacted through passage of a resolution.
- 4) For purposes of meeting emergency needs of the School District, transfer of appropriations may be made by the authorization of the Superintendent. Such transfers of appropriations must be approved by the Board of Education at its next regularly scheduled meeting.

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N) BUDGETARY DATA (Continued)

- 5) The School Superintendent is charged with general supervision of the budget and shall hold the department heads responsible for performance of their responsibilities.
- 6) During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.

O) RECLASSIFICATIONS

Certain reclassifications have been made to the prior year financial statements to conform to current year presentation.

3) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY – BUDGET VIOLATIONS

P.A. 621 of 1978, Section 18 (1), as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the District's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the District for these budgetary funds were adopted to the activity level.

During the year ended June 30, 2005, the District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated.

4) DEPOSITS AND INVESTMENTS

As of June 30, 2005, the District had the following investments.

<b>Investment Type</b>	<b>Fair value</b>	<b>Weighted Average Maturity (Years)</b>	<b>Credit Quality Rating</b>	<b>Portfolio %</b>
Mutual Funds Bonds:				
Loomis Sayles Bond Retail Shares	\$ 7,192	8.3800	A	
Loomis Sayles Global Bond Retail	6,313	4.8000	AA	
Pimco Total Return Class D	7,838	6.0000	AAA	
Total Mutual Funds Bonds	\$ 21,343			18.51%
Mutual Fund Equities	77,336	N/A	N/A	67.06%
MILAF External Investment Pool - MIMAX	16,652	0.0027	AAAm	14.44%
Total fair value	<u>\$ 115,331</u>			<u>100.00%</u>
Portfolio weighted average maturity		<u>3.6227</u>		

1 day maturity equals 0.0027, one year equals 1.00.

**Interest rate risk.** In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

**Credit risk.** State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2005, the District's investment in the investment pool was rated AAA by Standards & Poor's and AAA by Moody's Investors Service.



KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

4) DEPOSITS AND INVESTMENTS (Continued)

**Concentration of credit risk.** The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. More than 5% of the District's investments are in mutual funds which represents 86% of the District's total investments.

**Custodial credit risk – deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2005, \$105,739 of the District's bank balance of \$6,729,242 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

**Custodial credit risk – investments.** For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

**Foreign currency risk.** The District is not authorized to invest in investments which have this type of risk.

The above amounts as previously report in Note 4:

Deposits – Including Fiduciary Funds of \$183,929	\$ 6,769,225
Investments	<u>115,351</u>
<u>TOTAL</u>	<u>\$ 6,884,576</u>

The above amounts are reported in the financial statements as follows:

Cash Agency Fund	\$ 179,027
Cash Private Purpose Trust	4,902
Cash – District Wide	6,585,296
Investments – Private Purpose Trust	<u>115,351</u>
<u>TOTAL</u>	<u>\$ 6,884,576</u>

5) PROPERTY TAXES

The School District levies its property taxes on December 1 and various municipalities collect its property taxes and remit them to the District through February. The delinquent real property taxes of the District are purchased by the County, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The county sells tax notes, the proceeds of which have been used to pay the District for these delinquent real property taxes. These delinquent real property taxes have been recorded as revenue in the current year.

6) RECEIVABLES

Receivables at June 30, 2005, consist of taxes, accounts (fees), intergovernmental grants and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables (due from other governmental units) follows:

<u>GOVERNMENTAL ACTIVITIES</u>	<u>AMOUNT</u>
State Aid	\$ 4,690,259
Federal Grants	<u>94,998</u>
<u>TOTAL GOVERNMENTAL ACTIVITIES</u>	<u>\$ 4,785,257</u>

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

7) UNEMPLOYMENT COMPENSATION

The District is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the District must reimburse the Employment Commission for all benefits charged against the District for the year. As of June 30, 2005, the School District had estimated claims of \$157,842 in conjunction with the program.

8) SHORT-TERM DEBT

The District borrowed \$3,200,000 at 1.57% interest per annum on August 20, 2004, from Citizens Bank on a State Aid Anticipation Note. The short-term note proceeds were used to meet cash flow needs. The note was repaid August 20, 2005.

9) CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	<u>BALANCE</u> <u>JULY 1, 2004</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE</u> <u>JUNE 30, 2005</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
Buildings and Improvements	\$18,232,785	\$282,794	\$0	\$18,515,579
Land Improvements	1,141,221	824,293	0	1,965,514
Equipment and Furniture	1,475,159	407,265	0	1,882,424
Vehicles	2,175,621	284,084	0	2,459,705
Totals at Historical Cost	<u>\$23,024,786</u>	<u>\$1,798,436</u>	<u>\$0</u>	<u>\$24,823,222</u>
Less: Accumulated Depreciation				
Buildings and Improvements	(10,509,783)	(378,861)	0	(10,888,644)
Land Improvements	(172,160)	(55,282)	0	(227,442)
Equipment and Furniture	(935,564)	(130,117)	0	(1,065,681)
Vehicles	(1,566,740)	(164,733)	0	(1,731,473)
Total Accumulated Depreciation	<u>(\$13,184,247)</u>	<u>(\$728,993)</u>	<u>\$0</u>	<u>(\$13,913,240)</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
<u>CAPITAL ASSETS - NET</u>	<u>\$9,840,539</u>	<u>\$1,069,443</u>	<u>\$0</u>	<u>\$10,909,982</u>

Depreciation expense, when appropriate, was allocated to governmental functions. Depreciation expense that was not allocated appears on the statement of activities as "unallocated". Depreciation was recorded on the statement of activities as follows:

Instruction	\$ 81,986
Support Services	216,106
Food Service	2,317
Athletics	18,228
Unallocated	<u>410,356</u>
<u>TOTAL DEPRECIATION EXPENSE</u>	<u>\$ 728,993</u>

10) SELF INSURANCE POOL

The School District participates in a public entity risk pool (self-insurance pool) for its workers' compensation, property and casualty, general liability, and boiler insurance. The pool is through the MASB/SET/SEG and is administered by Corporate Services. The pool provides for reinsurance by various insurance companies at various levels, depending on the coverage. Should the pool experience significant losses in the aggregate, the School District may be required to pay additional monies to the pool. At present, the MASB/SET/SEG has not required additional funds, but rather has issued refunds based on experience gains over experience losses over the last few years. Premiums for the year ended June 30, 2005 were \$242,276 and the District received a refund of \$3,910.

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

11) LONG-TERM LIABILITIES

A) Durant Resolution Package Bonds

Kearsley Community Schools issued Durant Resolution Bonds on November 24, 1998 in the amount of \$473,505 at the interest rate of 4.7613%. The bonds are a legal obligation of the school district but the annual State of Michigan appropriation is the only revenue source for making the annual debt service payments on the bonds. If the legislature fails to appropriate the bonds, the district is under no obligation for payment. The balance at June 30, 2005 was \$302,506. The legislature refinanced the repayment schedule during the year ended June 30, 2003.

B) Installment Contracts

The District entered into three installment purchase contracts on December 31, 2001 totaling \$1,742,359. These notes were used to pay off installment purchase contracts dated September 26, 2000. The original notes were used for District-wide improvements. The new notes require monthly interest and principal payments and bear interest at 3.3159%. The balance at June 30, 2005 was \$289,915.

C) Debt service requirements at June 30, 2005, were as follows:

	Installment Contracts	Bonds Payable	Interest	Total
June 30, 2006	\$289,915	\$22,919	\$13,794	\$326,628
June 30, 2007	0	24,005	9,240	33,245
June 30, 2008	0	110,671	46,241	156,912
June 30, 2009	0	26,352	6,900	33,252
June 30, 2010	0	27,605	5,645	33,250
June 30, 2011-2013	0	90,954	8,796	99,750
<u>TOTAL</u>	<u>\$289,915</u>	<u>\$302,506</u>	<u>\$90,616</u>	<u>\$683,037</u>

D) Changes in Long-Term Liabilities

	BALANCE JULY 1, 2004	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2005	AMOUNT DUE IN ONE YEAR
<u>Governmental Activities:</u>					
Bonds Payable	\$302,506	\$0	\$0	\$302,506	\$22,919
Installment Contracts	763,140	0	473,225	289,915	289,915
Compensated Absences	182,368	0	23,080	159,288	N/A
<u>Total Governmental Activities</u>	<u>\$1,248,014</u>	<u>\$0</u>	<u>\$496,305</u>	<u>\$751,709</u>	<u>\$312,834</u>

The payment dates of sick days payable are undeterminable. The interest expenditures on long-term obligations for the year were \$21,933.

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

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12) LEASES

OPERATING LEASES

- A) On July 1, 2002, the District leased equipment under certain operating lease agreements from Toshiba Business Solutions. The leases are all for 60 month terms and require monthly payments of \$6,527. The total cost of the leases for the year was \$54,257.
- B) The District entered into a operating lease with Pitney Bowes for postage machine on December 12, 2002. The lease payment is \$227 per month for a period of five years. The total cost for the year was \$2,724.
- C) The District leases maintenance equipment from Avigas Great Lakes on a month-to-month basis. Monthly payments vary. Total cost for the year was \$248.
- D) On February 25, 2005, the District entered into a lease with Capital Advantage Leasing for 2 copy machines. The lease is for 60 months at \$925 per month. Total cost for the year was \$4,625.

CAPITAL LEASE

In October, 2003, the District entered into a lease with All-Lines Leasing for 2 floor cleaners. The lease is for 36 months at \$345 per month. The total cost for the year was \$4,029. Future minimum payments are as follows:

<u>JUNE 30</u>	<u>AMOUNT</u>
2006	\$ 28,258
2007	12,462
2008	11,100
2009	11,100
2010	6,475
<u>TOTALS</u>	<u>\$ 69,395</u>

13) DEFERRED REVENUE

On September 17, 2001, the District entered into an agreement to lease a 10,000 square foot parcel of land to Nextel Communications for the purpose of erecting a communications tower. The agreement was for a 60 month term and calls for a one time only payment of \$64,500. The current year portion of this payment is \$12,900 and is recognized in other local revenues. Future year revenue recognition will be as follows:

<u>JUNE 30</u>	<u>AMOUNT</u>
2006	\$ 12,900
2007	2,150
<u>TOTALS</u>	<u>\$ 15,050</u>

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

14) INTERFUND ACTIVITY

Interfund balances at June 30, 2005 consisted of the following:

DUE TO	DUE FROM		
	FOOD	ATHLETICS	
	SERVICE	FUND	TOTAL
	FUND	FUND	
General Fund	\$4,957	\$4,910	\$9,867

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

15) INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2005, consisted of the following:

TRANSFERS TO	TRANSFERS FROM	
	GENERAL FUND	
Athletics Fund	\$465,000	
Capital Projects Fund	62,523	
<b>TOTAL</b>	<b>\$527,523</b>	

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them (2) move receipts restricted to debt service from the funds collecting the receipts to the fund servicing the debt as debt payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

16) DEFINED BENEFIT PENSION PLAN

Plan Description

The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The MPERS provides retirement, survivor and disability benefits to plan members and their beneficiaries. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the MPERS. That report may be obtained by writing to the MPERS at 7150 Harris Drive, PO Box 30673, Lansing, MI 48909-8103.

Funding Policy

Employer contributions to the MPERS result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The pension benefit rate totals 12.99 percent for the period July 1, 2004 through September 30, 2004 and 14.87 percent for the period October 1, 2004 through June 30, 2005 of the covered payroll to the plan. Basic plan members make no contributions, but contribute to a member investment plan (MIP) at rates ranging from 3 percent to 4.3 percent of gross wages. The School District's contributions to the MPERS pension plan for the years ended June 30, 2005, 2004 and 2003 were \$2,520,011, \$2,358,493 and \$2,319,477, respectively.

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

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16) DEFINED BENEFIT PENSION PLAN (Continued)

Postemployment Benefits

Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverages. Required contributions for postemployment health care benefits are included as part of the School District's total contribution to the MPSERS pension plan discussed above.

17) RISK MANAGEMENT

The District is exposed to various risks of loss in conducting its operations, from property and casualty, theft, damage to various tort and liability claims and workman's compensation claims. The District limits its exposure to such claims through its participation in and payments of premiums to SET-SEG, Inc. Insurance Trust. The pool maintains a loss fund and is also required by the terms of the participation agreement to obtain insurance and reinsurance as necessary.

The terms of the participation agreement with the pool indicate that, should losses of the pool incurred in a given coverage period exceed the loss fund and the aggregate excess reinsurance, the fund may access its member districts on a pro-rata basis to cover excess losses. In past years the loss fund has exceeded the amount necessary to maintain prudent loss reserves, resulting in annual premium refunds to member districts. The District's management believes that participation in this pool provides sufficient coverage to protect the District from significant adverse financial impact.

18) GOVERNMENTAL REGULATION

Substantially all of the school district's facilities are subject to federal, state and local provisions regulating the discharge of materials into the environment. Compliance with these provisions has not had, nor does the school district expect such compliance to have, any material effect upon the capital expenditures, net revenue in excess of expenditures or financial condition of the school district. Management believes that its current practices and procedures for the control and disposition of such wastes comply with applicable federal and state requirements.

19) CONTINGENCIES AND COMMITMENTS

The District participates in a number of federally assisted grant programs. These programs are subject to program compliance audits. The audits of these programs for and including the year ended June 30, 2005, have been conducted and have been reported in this audit report. However, the compliance audit reports have not yet been accepted by the grantors. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time; although the District expects such amounts, if any, to be immaterial.

In January, 2006, the federal regulation for arsenic amounts in the drinking water will change. In order to comply with the new regulation, the school will be purchasing a water filtration system. The cost to complete this project will be \$180,181.

20) SUBSEQUENT EVENTS

On August 19, 2005, the District borrowed \$2,800,000 at 2.92% per annum from Citizens Bank on a State Aid Anticipation Note. The note proceeds will be used to meet cash flow needs for the 2005-2006 fiscal year.

REQUIRED  
SUPPLEMENTARY  
INFORMATION

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>			
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
<u>REVENUES</u>				
Local Sources	\$2,277,956	\$2,355,872	\$2,377,880	\$22,008
State Sources	25,536,563	26,002,789	25,918,535	(84,254)
Federal Sources	615,208	1,194,229	1,144,187	(50,042)
Total Revenues	<u>\$28,429,727</u>	<u>\$29,552,890</u>	<u>\$29,440,602</u>	<u>(\$112,288)</u>
<u>EXPENDITURES</u>				
Current:				
Instruction	17,163,400	18,034,237	18,222,101	(187,864)
Student Services	2,140,242	2,146,181	2,097,562	48,619
Instructional Support	1,237,274	1,432,109	1,337,237	94,872
General Administration	511,987	498,403	477,612	20,791
School Administration	1,925,809	1,963,636	1,941,842	21,794
Business Administration	437,907	392,934	381,857	11,077
Operation & Maintenance of Plant	2,706,409	2,752,815	2,627,159	125,656
Transportation	1,391,700	1,428,526	1,410,809	17,717
Support Services - Other	657,529	725,711	700,945	24,766
Community Services	30,802	40,524	49,575	(9,051)
Total Expenditures	<u>\$28,203,059</u>	<u>\$29,415,076</u>	<u>\$29,246,699</u>	<u>\$168,377</u>
Excess of Revenues Over Expenditures	<u>\$226,668</u>	<u>\$137,814</u>	<u>\$193,903</u>	<u>\$56,089</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers	(226,668)	(137,814)	(109,037)	28,777
Net Change in Fund Balance	<u>\$0</u>	<u>\$0</u>	<u>\$84,866</u>	<u>\$84,866</u>
<u>FUND BALANCE - BEGINNING</u>			<u>4,066,519</u>	
<u>FUND BALANCE - ENDING</u>			<u>\$4,151,385</u>	



OTHER SUPPLEMENTAL  
INFORMATION

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN  
COMBINING BALANCE SHEET  
OTHER GOVERNMENTAL FUNDS  
AS OF JUNE 30, 2005

	Special Revenue Fund	Capital Projects Sinking Fund	Total Other Governmental Funds
<u>ASSETS</u>			
Cash and Cash Equivalents	\$281,703	\$260,393	\$542,096
Taxes Receivable	0	1,751	1,751
Due from Other Governmental Units	16,799	0	16,799
Due from Other Funds	9,867	0	9,867
Inventory	11,493	0	11,493
<u>TOTAL ASSETS</u>	<u>\$319,862</u>	<u>\$262,144</u>	<u>\$582,006</u>
<u>LIABILITIES</u>			
Accounts Payable	\$6,858	\$183	\$7,041
Salaries Payable	33,652	0	33,652
Accrued Expenses	7,407	0	7,407
Total Liabilities	\$47,917	\$183	\$48,100
<u>FUND BALANCES</u>			
Reserved For:			
Inventory	11,493	0	11,493
Capital Projects	0	261,961	261,961
Unreserved:			
Undesignated, Reported In:			
Special Revenue Fund	260,452	0	260,452
Total Fund Balances	\$271,945	\$261,961	\$533,906
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$319,862</u>	<u>\$262,144</u>	<u>\$582,006</u>

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN  
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
OTHER GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2005

	Special Revenue Fund	Capital Projects Sinking Fund	Total Other Governmental Funds
<u>REVENUES</u>			
Local Sources	\$1,191,654	\$1,171,959	\$2,363,613
State Sources	61,998	0	61,998
Federal Sources	403,016	0	403,016
Total Revenues	<u>\$1,656,668</u>	<u>\$1,171,959</u>	<u>\$2,828,627</u>
<u>OTHER FINANCING SOURCES</u>	465,000	62,523	527,523
Total Revenues & Other Financing Sources	<u>\$2,121,668</u>	<u>\$1,234,482</u>	<u>\$3,356,150</u>
<u>EXPENDITURES</u>			
Food Service	996,895	0	996,895
Athletics	566,720	0	566,720
Daycare	562,513	0	562,513
Capital Projects			
Building Improvements	0	750,126	750,126
Loan Payments	0	495,157	495,157
Total Expenditures	<u>\$2,126,128</u>	<u>\$1,245,283</u>	<u>\$3,371,411</u>
Net Change in Fund Balance	(\$4,460)	(\$10,801)	(\$15,261)
<u>NET ASSETS - BEGINNING</u>	<u>276,405</u>	<u>272,762</u>	<u>549,167</u>
<u>NET ASSETS - ENDING</u>	<u>\$271,945</u>	<u>\$261,961</u>	<u>\$533,906</u>

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN  
COMBINING BALANCE SHEET  
SPECIAL REVENUE FUND  
AS OF JUNE 30, 2005

	Food Services Fund	Athletic Fund	Daycare Fund	Total
<u>ASSETS</u>				
Cash and Cash Equivalents	\$180,053	\$7,904	\$93,746	\$281,703
Due from Other Governmental Units	16,799	0	0	16,799
Due from Other Funds	4,957	4,910	0	9,867
Inventory	11,493	0	0	11,493
<u>TOTAL ASSETS</u>	<u>\$213,302</u>	<u>\$12,814</u>	<u>\$93,746</u>	<u>\$319,862</u>
<u>LIABILITIES</u>				
Accounts Payable	\$1,671	\$2,803	\$2,384	\$6,858
Salaries Payable	11,983	5,237	16,432	33,652
Accrued Expenses	2,698	1,008	3,701	7,407
Total Liabilities	\$16,352	\$9,048	\$22,517	\$47,917
<u>FUND BALANCES</u>				
Fund Balance - Reserved for Inventory	11,493	0	0	11,493
Fund Balance - Unreserved and Undesignated	185,457	3,766	71,229	260,452
Total Fund Balance	\$196,950	\$3,766	\$71,229	\$271,945
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$213,302</u>	<u>\$12,814</u>	<u>\$93,746</u>	<u>\$319,862</u>

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN  
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
SPECIAL REVENUE FUND  
FOR THE YEAR ENDED JUNE 30, 2005

	Food Services Fund	Athletic Fund	Daycare Fund	Total
<u>REVENUES</u>				
<u>Local Sources</u>				
Cafeteria Sales	\$504,303	\$0	\$0	\$504,303
Athletic Activities	0	94,881	0	94,881
Tuition	0	0	569,434	569,434
Other Local Revenues	13,677	9,359	0	23,036
Total Local Sources	<u>\$517,980</u>	<u>\$104,240</u>	<u>\$569,434</u>	<u>\$1,191,654</u>
<u>State Sources</u>				
State Reimbursements	61,998	0	0	61,998
<u>Federal Sources</u>				
Headstart	16,512	0	0	16,512
Federal Reimbursements	386,504	0	0	386,504
Total Federal Sources	<u>\$403,016</u>	<u>\$0</u>	<u>\$0</u>	<u>\$403,016</u>
Total Revenues	<u>\$982,994</u>	<u>\$104,240</u>	<u>\$569,434</u>	<u>\$1,656,668</u>
<u>OTHER FINANCING SOURCES</u>				
Transfers from General Fund	0	465,000	0	465,000
Total Revenues & Other Financing Sources	<u>\$982,994</u>	<u>\$569,240</u>	<u>\$569,434</u>	<u>\$2,121,668</u>
<u>EXPENDITURES</u>				
Salaries - Professional	38,419	78,559	205,234	322,212
Salaries - Non-Professional	286,120	246,712	138,728	671,560
Insurances	59,770	29,924	27,117	116,811
Fica, Retirement, Etc.	72,942	71,300	74,022	218,264
Other Benefits	2,880	1,154	2,653	6,687
Purchased Services	20,730	87,584	56,920	165,234
Supplies and Materials	458,160	29,376	43,155	530,691
Capital Outlay	53,128	9,001	6,184	68,313
Other	4,746	13,110	8,500	26,356
Total Expenditures	<u>\$996,895</u>	<u>\$566,720</u>	<u>\$562,513</u>	<u>\$2,126,128</u>
<u>EXCESS REVENUES AND OTHER FINANCING</u> <u>SOURCES OVER (UNDER) EXPENDITURES</u>	<u>(\$13,901)</u>	<u>\$2,520</u>	<u>\$6,921</u>	<u>(\$4,460)</u>
<u>FUND BALANCE - BEGINNING OF YEAR</u>	<u>210,851</u>	<u>1,246</u>	<u>64,308</u>	<u>276,405</u>
<u>FUND BALANCE - END OF YEAR</u>	<u>\$196,950</u>	<u>\$3,766</u>	<u>\$71,229</u>	<u>\$271,945</u>

INDIVIDUAL FUND SCHEDULES OF  
REVENUES, EXPENDITURES AND  
OTHER FINANCING USES

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN  
GENERAL FUND  
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES  
FOR THE YEAR ENDED JUNE 30, 2005

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REVENUES FROM
Local Sources

Current Taxes	\$1,635,339
Earnings on Investments and Deposits	79,423
Tuition	60,100
Rental of School Property	28,110
Medicaid	84,191
Contributions	229,827
Other Local Revenues	260,890
Total Revenues from Local Sources	<u>\$2,377,880</u>

State Sources

State Aid - Membership - Sec. 20	24,451,004
At Risk	520,170
MI School Readiness	102,276
Special Education	635,711
Durant	47,350
Vocational Education	75,546
Gifted and Talented	532
Grants from ISD	85,946
Total Revenues from State Sources	<u>\$25,918,535</u>

Federal Sources

Title I	362,686
Title I Carryover	41,647
Technology Literacy Challenge	9,426
Title V	3,231
Improving Teacher Quality	83,818
Other Grants from ISD	34,071
Special Education - Flowthrough	564,064
Preschool - Flowthrough	14,244
Medicaid	31,000
Total Revenues from Federal Sources	<u>\$1,144,187</u>
Total Revenues	<u>\$29,440,602</u>

OTHER FINANCING SOURCES

Transfers from Other Districts	47,331
County Special Education Tax	371,155
Total Other Financing Sources	<u>\$418,486</u>

TOTAL REVENUES AND OTHER FINANCING SOURCES
\$29,859,088

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN  
GENERAL FUND  
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
FOR THE YEAR ENDED JUNE 30, 2005

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INSTRUCTION

Basic Programs

Buffey Elementary

Salaries - Professional	\$866,146
Salaries - Non-Professional	29,669
Insurances	193,540
Fica, Retirement, Etc.	202,806
Other Benefits	1,119
Purchased Services	13,669
Supplies and Materials	33,129
Capital Outlay	120,201
Other	1,346
Total Buffey Elementary	<u>\$1,461,625</u>

Dowdall Elementary

Salaries - Professional	982,928
Salaries - Non-Professional	34,038
Insurances	226,306
Fica, Retirement, Etc.	229,994
Other Benefits	3,646
Purchased Services	12,280
Supplies and Materials	36,598
Capital Outlay	316,288
Other	1,168
Total Dowdall Elementary	<u>\$1,843,246</u>

Fiedler Elementary

Salaries - Professional	890,049
Salaries - Non-Professional	31,288
Insurances	233,606
Fica, Retirement, Etc.	208,623
Other Benefits	2,055
Purchased Services	11,168
Supplies and Materials	35,703
Capital Outlay	6,859
Other	1,247
Total Fiedler Elementary	<u>\$1,420,598</u>

Weston School

Salaries - Professional	1,175,573
Salaries - Non-Professional	27,407
Insurances	276,481
Fica, Retirement, Etc.	270,063
Other Benefits	2,363
Purchased Services	14,051
Supplies and Materials	69,621
Capital Outlay	24,029
Other	1,218
Total Weston School	<u>\$1,860,806</u>



KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN  
GENERAL FUND  
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
FOR THE YEAR ENDED JUNE 30, 2005

INSTRUCTION (Continued)Basic Programs (Continued)Middle School

Salaries - Professional	\$2,022,711
Salaries - Non-Professional	95,679
Insurances	457,872
Fica, Retirement, Etc.	477,360
Other Benefits	9,437
Purchased Services	27,850
Supplies and Materials	55,419
Capital Outlay	403,100
Other	14,542
Total Middle School	<u>\$3,563,970</u>

High School

Salaries - Professional	3,053,288
Salaries - Non-Professional	88,725
Insurances	596,687
Fica, Retirement, Etc.	704,741
Other Benefits	42,386
Purchased Services	89,465
Supplies and Materials	139,035
Capital Outlay	371,767
Other	6,539
Total High School	<u>\$5,092,633</u>

Preschool - Weston

Salaries - Professional	37,376
Salaries - Non-Professional	7,551
Insurances	31,271
Fica, Retirement, Etc.	10,036
Supplies and Materials	6,918
Capital Outlay	1,419
Other	148
Total Preschool - Weston	<u>\$94,719</u>

Summer School - Paro

Salaries - Professional	28,302
Salaries - Non-Professional	1,314
Fica, Retirement, Etc.	6,254
Supplies and Materials	240
Capital Outlay	4,151
Total Summer School - Paro	<u>\$40,261</u>

Total Basic Programs	\$15,377,858
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KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN  
GENERAL FUND  
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
FOR THE YEAR ENDED JUNE 30, 2005

INSTRUCTION (Continued)

ADDED NEEDS

Special Education

Salaries - Professional	\$764,503
Salaries - Non-Professional	315,474
Insurances	160,976
Fica, Retirement, Etc.	241,606
Other Benefits	9,734
Purchased Services	221
Supplies and Materials	35,991
Other	740
Total Special Education	<u>\$1,529,245</u>

Compensatory Education

Salaries - Professional	301,447
Salaries - Non-Professional	329,586
Insurances	84,915
Fica, Retirement, Etc.	140,588
Other Benefits	4,464
Purchased Services	1,592
Supplies and Materials	9,448
Total Compensatory Education	<u>\$872,040</u>

Vocational Education

Salaries - Professional	214,958
Salaries - Non-Professional	11,185
Insurances	46,949
Fica, Retirement, Etc.	50,415
Purchased Services	4,231
Supplies and Materials	15,028
Capital Outlay	100,192
Total Vocational Education	<u>\$442,958</u>

Total Added Needs	<u>\$2,844,243</u>
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<u>Total Instruction</u>	\$18,222,101
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SUPPORT SERVICES

STUDENT SERVICES

Salaries - Professional	1,077,634
Salaries - Non-Professional	363,966
Insurances	242,435
Fica, Retirement, Etc.	329,663
Other Benefits	7,772
Purchased Services	57,052
Supplies and Materials	14,174
Capital Outlay	4,446
Other	420
Total Student Services	<u>\$2,097,562</u>

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN  
GENERAL FUND  
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
FOR THE YEAR ENDED JUNE 30, 2005

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SUPPORT SERVICES (Continued)

INSTRUCTIONAL STAFF

Salaries - Professional	\$632,339
Salaries - Non-Professional	246,450
Insurances	163,571
Fica, Retirement, Etc.	194,432
Other Benefits	11,603
Purchased Services	72,918
Supplies and Materials	12,376
Capital Outlay	2,732
Other	816
Total Instructional Staff	<u>\$1,337,237</u>

GENERAL ADMINISTRATION

Board of Education

Salaries - Professional	2,880
Purchased Services	52,426
Other	18,999
Total Board of Education	<u>\$74,305</u>

Executive Administration

Salaries - Professional	179,650
Salaries - Non-Professional	49,950
Insurances	30,632
Fica, Retirement, Etc.	46,544
Other Benefits	3,344
Purchased Services	51,655
Supplies and Materials	24,378
Capital Outlay	4,017
Other	13,137
Total Executive Administration	<u>\$403,307</u>

Total General Administration	\$477,612
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SCHOOL ADMINISTRATION

Salaries - Professional	941,332
Salaries - Non-Professional	385,692
Insurances	223,851
Fica, Retirement, Etc.	295,306
Other Benefits	29,709
Purchased Services	20,876
Supplies and Materials	44,526
Other	550
Total School Administration	<u>\$1,941,842</u>

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN  
GENERAL FUND  
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
FOR THE YEAR ENDED JUNE 30, 2005

SUPPORT SERVICES (Continued)BUSINESS OFFICE

Salaries - Professional	\$63,279
Salaries - Non-Professional	125,379
Insurances	62,653
Fica, Retirement, Etc.	44,459
Other Benefits	926
Purchased Services	23,361
Other	61,800
Total Business Office	<u>\$381,857</u>

OPERATION & MAINTENANCE OF PLANT

Salaries - Professional	8,978
Salaries - Non-Professional	392,067
Insurances	80,209
Fica, Retirement, Etc.	311,787
Other Benefits	2,828
Purchased Services	1,024,413
Supplies and Materials	799,964
Capital Outlay	5,243
Other	1,670
Total Operation and Maintenance of Plant	<u>\$2,627,159</u>

TRANSPORTATION

Salaries - Professional	53,141
Salaries - Non-Professional	478,337
Insurances	48,218
Fica, Retirement, Etc.	145,818
Purchased Services	183,104
Supplies and Materials	217,702
Capital Outlay	284,084
Other	405
Total Transportation	<u>\$1,410,809</u>

OTHER SUPPORT SERVICES

Salaries - Professional	78,184
Salaries - Non-Professional	203,222
Insurances	58,247
Fica, Retirement, Etc.	63,000
Other Benefits	4,441
Purchased Services	272,060
Supplies and Materials	731
Capital Outlay	18,644
Other	2,416
Total Other Support Services	<u>\$700,945</u>

Total Support Services	\$10,975,023
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KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN  
GENERAL FUND  
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
FOR THE YEAR ENDED JUNE 30, 2005

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COMMUNITY SERVICES

Salaries - Non-Professional	\$16,910
Fica, Retirement, Etc.	2,699
Purchased Services	2,218
Supplies and Materials	3,064
Capital Outlay	24,684
Total Community Services	<u>\$49,575</u>

Total Expenditures	\$29,246,699
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OTHER FINANCING USES

Transfers to Other Funds	<u>527,523</u>
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TOTAL EXPENDITURES AND OTHER  
FINANCING USES

	<u>\$29,774,222</u>
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KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN  
TRUST AND AGENCY FUND  
SCHEDULE OF RECEIPTS AND DISBURSEMENTS - STUDENT ACTIVITY ACCOUNTS  
FOR THE YEAR ENDED JUNE 30, 2005

STUDENT ACTIVITY	DUE TO (FROM) STUDENT GROUPS		DISBURSEMENTS	DUE TO (FROM) STUDENT GROUPS	
	JULY 1, 2004	RECEIPTS		JUNE 30, 2005	
Adm Office	\$1,906	\$957	\$1,741	\$1,122	
Admin-Flow Through	0	59,716	59,716	0	
Alcohol, Tobacco & Other Drugs	150	0	0	150	
AMS X-Team	297	0	0	297	
Armstrong Art	655	578	516	717	
Armstrong Band	461	2,218	2,086	593	
Armstrong Chess Club	40	0	0	40	
Armstrong Choir	7	0	0	7	
Armstrong Cluster #1	1,283	17,399	17,621	1,061	
Armstrong Cluster #2	507	13,473	13,456	524	
Armstrong Cluster #3	9,589	9,531	17,764	1,356	
Armstrong Cluster #4	314	0	33	281	
Armstrong Cluster #5	92	0	0	92	
Armstrong Cluster #6	(115)	143	0	28	
Armstrong Cluster #7	867	22,013	22,784	96	
Armstrong Cluster #8	1,465	24,776	25,085	1,156	
Armstrong Cross County	100	510	276	334	
Armstrong Drama Club	323	911	685	549	
Armstrong Family Living	1,938	46	1,984	0	
Armstrong Flow Through	2,233	8,792	5,302	5,723	
Armstrong Flower Fund	10	710	576	144	
Armstrong KATS	35	0	0	35	
Armstrong Language Arts	1,063	0	201	862	
Armstrong Money Matters	0	3,804	1,379	2,425	
Armstrong National Junior Honor	0	4,935	4,511	424	
Armstrong Office	2,472	2,747	3,131	2,088	
Armstrong Science Dept	924	5,341	2,601	3,664	
Armstrong Social Studies	727	10,120	10,076	771	
Armstrong Student Incentive	1,705	0	0	1,705	
Armstrong Student Senate	2,140	4,819	5,443	1,516	
Armstrong Yearbook	2,845	12,413	12,276	2,982	
Athletic Office Account	0	11,330	6,925	4,405	
Athletic Office Fund	0	714	525	189	
Baseball	0	3,566	3,256	310	
Boy Athletics	976	881	1,711	146	
Boys Basketball Team	2,141	9,259	11,052	348	
Boys Track	1,398	150	765	783	
Buffey Beautification	576	0	392	184	
Buffey Computer Supp	12	152	0	164	
Buffey Field Trips	114	0	86	28	
Buffey Flower Fund	62	517	372	207	
Buffey Library	987	6,349	6,687	649	
Buffey Office	544	8,437	8,917	64	
Buffey Student Senate	1,234	708	844	1,098	
Burgtorf Office	20,291	30,052	24,178	26,165	
Cavin Councilor Memorial	250	0	250	0	

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN  
TRUST AND AGENCY FUND  
SCHEDULE OF RECEIPTS AND DISBURSEMENTS - STUDENT ACTIVITY ACCOUNTS  
FOR THE YEAR ENDED JUNE 30, 2005

STUDENT ACTIVITY	DUE TO (FROM) STUDENT GROUPS	RECEIPTS	DISBURSEMENTS	DUE TO (FROM) STUDENT GROUPS
	JULY 1, 2004			JUNE 30, 2005
Cheerleading	\$1	\$13,496	\$11,291	\$2,206
Chris Christensen Memor Bldg	(3,314)	4,466	1,152	0
Class of 1999	482	0	482	0
Class of 2002	185	0	185	0
Class of 2004	3,454	0	3,163	291
Class of 2005	13,150	17,701	24,882	5,969
Class of 2006	432	5,429	2,794	3,067
Class of 2007	951	3,207	1,177	2,981
Class of 2008	0	5,715	1,093	4,622
Davison C-A Co-Op Enrichment	388	1,507	610	1,285
Dowdall Office	209	6,682	5,229	1,662
Dowdall School Store	(11)	26	15	0
Dowdall Student Council	114	189	124	179
Fiedler Drama Club	101	0	101	0
Fiedler Office	(788)	3,395	2,409	198
Fiedler Read-a-Thon	1,444	2,337	1,942	1,839
Fiedler School Store	153	0	0	153
Girls Athletics	(964)	1,199	235	0
Girls Basketball Team	697	4,585	5,264	18
Girls Track	0	250	36	214
Hornet's Nest	25,610	49,850	64,670	10,790
HS Art	(44)	4,234	4,064	126
HS Auto Shop	1,372	5,447	5,708	1,111
HS Band	(559)	575	0	16
HS Broadcasting	183	555	457	281
HS Business Profession	295	0	0	295
HS Career Academy	65	0	0	65
HS Chess Club	1,901	2,633	3,600	934
HS Choir	2,376	6,140	6,189	2,327
HS Closeup DC Trip	1,979	0	1,979	0
HS Drama	3,660	6,014	7,196	2,478
HS Football	(515)	2,320	0	1,805
HS French Club	56	1,074	1,130	0
HS Journalism	141	5,596	4,553	1,184
HS Jr. National Honor Society	714	101	310	505
HS Library	40	76	69	47
HS Literary Magazine	200	0	0	200
HS National Honor Society	(66)	5,864	5,334	464
HS Office Activity	2,451	7,590	5,927	4,114
HS Physical Ed Dept	1,123	2,081	2,771	433
HS SADD	236	0	0	236
HS Science	941	10,642	10,004	1,579
HS Ski Club	130	425	394	161
HS Softball Team	(141)	6,494	5,629	724
HS Spanish Club	178	0	178	0

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN  
TRUST AND AGENCY FUND  
SCHEDULE OF RECEIPTS AND DISBURSEMENTS - STUDENT ACTIVITY ACCOUNTS  
FOR THE YEAR ENDED JUNE 30, 2005

STUDENT ACTIVITY	DUE TO (FROM) STUDENT GROUPS	RECEIPTS	DISBURSEMENTS	DUE TO (FROM) STUDENT GROUPS
	JULY 1, 2004			JUNE 30, 2005
HS Student Senate	\$6,650	\$7,291	\$8,204	\$5,737
HS Technology	(16)	3,672	1,874	1,782
HS Testing	0	6,075	5,865	210
HS World Languages	0	623	16	607
HS VICA	87	0	0	87
HS Yearbook	8,719	44,839	48,713	4,845
Intramural Sports	3,728	0	3,728	0
KATS Activity	507	0	170	337
Kearsley Christmas Charity	4,438	15,518	13,356	6,600
Kearsley Summer Baseball	462	0	462	0
Memorial Fund	2,104	0	2,104	0
Michael Lafia Scholarship	0	1,000	1,000	0
Miscellaneous Scholarships	500	13	513	0
Office Flowthrough	0	12	12	0
Paro Co-Op	3,118	7,789	8,340	2,567
Paro Office	2,817	5,672	5,954	2,535
Past Board Membership Association	1,346	80	79	1,347
Savings Interest	10,561	2,658	0	13,219
Special Services	1,573	1,630	2,468	735
Summer School Book Fair	2	0	2	0
Sydney Campbell Mem. Playground	0	60,274	46,710	13,564
Volleyball	1,076	1,506	802	1,780
Weston Office	2,239	10,827	11,115	1,951
Wrestling	2,032	2,955	3,904	1,083
<u>TOTAL</u>	<u>\$173,571</u>	<u>\$638,396</u>	<u>\$632,940</u>	<u>\$179,027</u>



KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN  
PRIVATE PURPOSE TRUSTS  
STATEMENT OF REVENUE AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2005

<u>BURGTORF SCHOLARSHIP FUND</u>		
<u>BALANCE - JULY 1, 2004</u>		\$37,424
<u>REVENUE</u>		
Donations		69,250
Interest		11,864
Total Revenue		<u>\$81,114</u>
<u>EXPENDITURES</u>		
Scholarship Awards		10,500
Other Expenditures		4,457
Total Expenditures		<u>\$14,957</u>
<u>BALANCE - JUNE 30, 2005</u>		<u>\$103,581</u>
<u>KERBY SCHOLARSHIP FUND</u>		
<u>BALANCE - JULY 1, 2004</u>		\$17,328
<u>REVENUE</u>		
Interest		324
<u>EXPENDITURES</u>		
Scholarship Awards		<u>1,000</u>
<u>BALANCE - JUNE 30, 2005</u>		<u>\$16,652</u>

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN  
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

DATE OF ISSUE - November 24, 1998

Original amount of issue - \$473,505

1998 DURANT RESOLUTION PACKAGE BONDS

	PRINCIPAL REQUIREMENT	INTEREST RATE	INTEREST REQUIREMENT	TOTAL FISCAL YEAR REQUIREMENTS
<u>PAYMENT DATE - MAY 15TH</u>				
2006	\$22,919	4.761353%	\$10,332	\$33,251
2007	24,005	4.761353%	9,240	33,245
2008	110,670	4.761353%	46,241	156,911
2009	26,352	4.761353%	6,900	33,252
2010	27,606	4.761353%	5,645	33,251
2011	28,920	4.761353%	4,331	33,251
2012	30,296	4.761353%	2,954	33,250
2013	31,738	4.761353%	1,511	33,249
<u>TOTAL</u>	<u>\$302,506</u>		<u>\$87,154</u>	<u>\$389,660</u>

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN  
SCHEDULE OF PRINCIPAL AND INTEREST REQUIREMENTS - INSTALLMENT CONTRACTS  
FOR THE YEAR ENDED JUNE 30, 2005

DATE OF ISSUE - December 31, 2001

Amount Authorized: \$741,334

LIGHTING RENOVATION CONTRACT

	<u>PRINCIPAL REQUIREMENT</u>	<u>INTEREST RATE</u>	<u>INTEREST REQUIREMENT</u>	<u>TOTAL FISCAL YEAR REQUIREMENTS</u>
2005-2006	<u>\$186,457</u>	3.3159%	<u>\$2,350</u>	<u>\$188,807</u>

The contract is authorized and issued for the purpose of providing funds to be used to purchase light fixtures, switches, occupancy sensors, mechanical diffusers, ductwork, ceiling and tile grids and related appurtenances.

DATE OF ISSUE - December 31, 2001

Amount Authorized: \$538,192

WESTON ELEMENTARY MECHANICAL CONTRACT

	<u>PRINCIPAL REQUIREMENT</u>	<u>INTEREST RATE</u>	<u>INTEREST REQUIREMENT</u>	<u>TOTAL FISCAL YEAR REQUIREMENTS</u>
2005-2006	<u>\$70,553</u>	3.3159%	<u>\$805</u>	<u>\$71,358</u>

The contract is authorized and issued for the purpose of providing funds to be used to purchase nine rooftop HVAC units, mechanical diffusers, ductwork and related appurtenances for Weston Elementary School.

DATE OF ISSUE - December 31, 2001

Amount Authorized: \$462,833

ENERGY MANAGEMENT SYSTEM

	<u>PRINCIPAL REQUIREMENT</u>	<u>INTEREST RATE</u>	<u>INTEREST REQUIREMENT</u>	<u>TOTAL FISCAL YEAR REQUIREMENTS</u>
2005-2006	<u>\$32,905</u>	3.3159%	<u>\$3,780</u>	<u>\$36,685</u>

The contract is authorized and issued for the purpose of providing funds to be used for the purpose of an energy management system and related appurtenances to operate various mechanical components.

KEARSLEY COMMUNITY SCHOOLS

FLINT, MICHIGAN

FEDERAL AWARDS  
SUPPLEMENTAL INFORMATION

FOR THE YEAR ENDED JUNE 30, 2005

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*Lewis & Knopf, CPAs, P.C.*

Serving You with Trust and Integrity

August 24, 2005

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Education of  
Kearsley Community Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kearsley Community Schools, as of and for the year ended June 30, 2005, which collectively comprise the Kearsley Community Schools' basic financial statements and have issued our report thereon dated August 24, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Kearsley Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kearsley Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we reported to management of Kearsley Community Schools, in a separate letter dated August 24, 2005.

This report is intended solely for the information and use of the finance committee, management, Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Lewis & Knopf P.C.*

LEWIS & KNOPF, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS



*Lewis & Knopf, CPAs, P.C.*

Serving You with Trust and Integrity

August 24, 2005

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR  
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A-133**

To the Board of Education of  
Kearsley Community Schools

Compliance

We have audited the compliance of Kearsley Community Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. Kearsley Community Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Kearsley Community Schools' management. Our responsibility is to express an opinion on Kearsley Community Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Kearsley Community Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Kearsley Community Schools' compliance with those requirements.

In our opinion, Kearsley Community Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Kearsley Community Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Kearsley Community Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.



Kearsley Community Schools  
Page 2  
August 24, 2005

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kearsley Community Schools, as of and for the year ended June 30, 2005, and have issued our report thereon dated August 24, 2005. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Kearsley Community Schools' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the finance committee, management, Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Lewis & Knopf P.C.*

LEWIS & KNOFF, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS



KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2005

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH PROJECT NUMBER	APPROVED GRANT AWARD AMOUNT
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Passed Through Michigan Department of Education:			
Title I Grants to Local Educational Agencies	84.010		
ESEA Title I - Regular (03-04)		41530-0304	\$348,493
ESEA Title I - Regular (04-05)		41530-0405	41,647
ESEA Title I - Regular (04-05)		51530-0405	387,636
Total ESEA Title I			<u>\$777,776</u>
Innovative Education Program Strategies	84.298		
Title V (03-04)		30250-0304	3,222
Title V (04-05)		40520-0405	3,231
Total Innovative Education Program Strategies			<u>\$6,453</u>
Technology Literacy Challenge	84.318		
Technology Literacy Challenge (03-04)		34290-0304	12,499
Technology Literacy Challenge (04-05)		44290-0405	9,426
Total Technology Literacy Challenge			<u>\$21,925</u>
Improving Teacher Quality	84.367		
Title IIA (03-04)		40520-0304	72,422
Title IIA (04-05)		40520-0405	63,751
Title IIA (04-05)		50520-0405	38,676
Total Improving Teacher Quality			<u>\$174,849</u>
Total Passed Through Michigan Department of Education			<u>\$981,003</u>
Passed Through Genesee Intermediate School District:			
Special Education - Grants to States	84.027		
IDEA Flow Through (03-04)		40450-0304	475,849
IDEA Flow Through (04-05)		50450-0405	564,064
Transition Services (04-05)		50490-TS	1,623
Total Special Education - Grants to States			<u>\$1,041,536</u>
Vocational Education - Basic Grants to States:	84.048		
Perkins Secondary Regional (04-05)		53520-5012-15	18,229
Special Education - Preschool Grants	84.173		
IDEA Preschool Incentive (03-04)		40460-0304	16,173
IDEA Preschool Incentive (04-05)		50460-0405	14,224
Total Special Education - Preschool Grants			<u>\$30,397</u>
Safe & Drug Free Learning	84.184L		
Safe & Drug Free Learning (03-04)		S184L020281-3	13,481

ACCRUED (DEFERRED) REVENUE JULY 1, 2004	PRIOR YEAR EXPENDITURES	CURRENT YEAR EXPENDITURES	ADJUSTMENTS	CURRENT YEAR CASH RECEIPTS	ACCRUED (DEFERRED) REVENUE JUNE 30, 2005
\$3,499	\$325,236	\$23,257	\$0	\$26,756	\$0
0	0	41,647	0	41,564	83
0	0	339,429	0	294,703	44,726
\$3,499	\$325,236	\$404,333	\$0	\$363,023	\$44,809
3,222	3,222	0	0	3,222	0
0	0	3,231	0	0	3,231
\$3,222	\$3,222	\$3,231	\$0	\$3,222	\$3,231
196	11,263	0	0	196	0
0	0	9,426	0	0	9,426
\$196	\$11,263	\$9,426	\$0	\$196	\$9,426
8,219	65,233	7,209	0	15,428	0
0	0	63,751	0	63,751	0
0	0	12,858	0	7,923	4,935
\$8,219	\$65,233	\$83,818	\$0	\$87,102	\$4,935
\$15,136	\$404,954	\$500,808	\$0	\$453,543	\$62,401
128,009	475,849	0	0	128,009	0
0	0	564,064	0	345,668	218,396
0	0	1,623	0	1,623	0
\$128,009	\$475,849	\$565,687	\$0	\$475,300	\$218,396
0	0	18,229	0	18,229	0
3,270	16,173	0	0	3,270	0
0	0	14,244	0	9,168	5,076
\$3,270	\$16,173	\$14,244	\$0	\$12,438	\$5,076
0	4,562	8,919	0	8,919	0

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2005

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH PROJECT NUMBER	APPROVED GRANT AWARD AMOUNT
<u>U.S. DEPARTMENT OF EDUCATION</u> (Continued)			
Passed Through Genesee Intermediate School District (Continued):			
Emergency Response Plans	87.184		
Emergency Response Plans (03-04)		Q184E030509	\$5,000
Total Passed Through Genesee Intermediate School District			<u>\$1,108,643</u>
<u>TOTAL U.S. DEPARTMENT OF EDUCATION</u>			\$2,089,646
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Passed Through Michigan Department of Education:			
Food Distribution	10.550		
Entitlement Commodities		N/A	42,929
Bonus Commodities		N/A	4,064
Total Commodities			<u>\$46,993</u>
School Breakfast Program	10.553	N/A	51,642
National School Lunch Program	10.555	N/A	280,854
Special Milk Program for Children	10.556	N/A	<u>7,015</u>
<u>TOTAL U.S. DEPARTMENT OF AGRICULTURE</u>			\$386,504
<u>U.S. DEPARTMENT OF LABOR</u>			
Passed Through Genesee Intermediate School District			
WIA Title I	17.259		
Year Round Youth Services (04-05)		007-K-004	300
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Passed Through Genesee County Community Action Resource Dept.			
Head Start	93.600	N/A	16,512
Passed Through Genesee Intermediate School District			
Medical Assistance Program Title XIX	93.778		
Medicaid Outreach Claims		N/A	<u>31,000</u>
<u>TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			<u>\$47,512</u>
<u>TOTAL FEDERAL AWARDS</u>			<u><u>\$2,523,962</u></u>

ACCRUED (DEFERRED) REVENUE JULY 1, 2004	PRIOR YEAR EXPENDITURES	CURRENT YEAR EXPENDITURES	ADJUSTMENTS	CURRENT YEAR CASH RECEIPTS	ACCRUED (DEFERRED) REVENUE JUNE 30, 2005
\$0	\$0	\$5,000	\$0	\$5,000	\$0
\$131,279	\$496,584	\$612,079	\$0	\$519,886	\$223,472
\$146,415	\$901,538	\$1,112,887	\$0	\$973,429	\$285,873
0	0	42,929	0	42,929	0
0	0	4,064	0	4,064	0
\$0	\$0	\$46,993	\$0	\$46,993	\$0
1,795	0	51,642	0	51,648	1,789
10,319	0	280,854	0	284,044	7,129
226	0	7,015	0	7,034	207
\$12,340	\$0	\$386,504	\$0	\$389,719	\$9,125
0	0	300	0	300	0
0	0	16,512	0	16,512	0
0	0	31,000	0	31,000	0
\$0	\$0	\$47,512	\$0	\$47,512	\$0
\$158,755	\$901,538	\$1,547,203	\$0	\$1,410,960	\$294,998

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN  
NOTES/RECONCILIATION TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2005

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FEDERAL REVENUE RECOGNIZED FOR THE SCHEDULE  
OF EXPENDITURES OF FEDERAL AWARDS

\$1,547,203

FEDERAL REVENUE RECOGNIZED PER THE GENERAL  
PURPOSE FINANCIAL STATEMENTS

General Fund

\$1,144,187

School Service Fund

403,016

TOTAL

\$1,547,203

- 1) The Schedule of Expenditures of Federal Awards had been prepared under the modified accrual basis of accounting.
- 2) Management has utilized the Grants Section Auditors Report (Form R7120) in preparing the Schedule of Expenditures of Federal Awards. All differences between the Schedule of Expenditures of Federal Awards and the Form R7120 have been reconciled in the attached reconciliation on page 7 of this report.
- 3) As of the date of completion of fieldwork, the Schedule of Transfers to Sub-Recipients from the Intermediate School Districts was not available. The amounts shown on the Schedule of Federal Financial Assistance as flow through from the Intermediate School Districts may not be conclusive.

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN  
RECONCILIATION OF FORM R 7120 "GRANT SECTION AUDITOR'S REPORT"  
TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2005

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Current Payments Per the Grant Section Auditor's Report (Form R 7120)		\$813,007
<u>Less:</u> State Funded Grants School Breakfast Program		(16,738)
<u>Add:</u> Grants Passed Through Genesee Intermediate School District:		
Special Education - State Grants (CFDA 84.027)	\$475,300	
Vocational Education (CFDA 84.048)	18,229	
Special Education - Preschool Grants (CFDA 84.173)	12,438	
Safe & Drug Free Learning (CFDA 84.184L)	8,919	
PEP - CM White Physical Fitness (CFDA 84.215F)	5,000	
Year Around Youth (CFDA 17.259)	300	
Medical Assistance Program Title XIX (CFDA 93.778)	31,000	
Total Passed Through Genesee Intermediate School District		551,186
Grant Passed Through Genesee County Community Action Resource Dept. Headstart (CFDA 93.600)		16,512
Entitlement and Bonus Commodities (CFDA 10.550)		46,993
<u>TOTAL CURRENT YEAR RECEIPTS PER SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS</u>		<u>\$1,410,960</u>

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN  
SUMMARY OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2005

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**SECTION I – SUMMARY OF AUDITOR’S RESULTS**

**Financial Statements**

Type of auditor’s report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted?

☐ Yes ☒ No

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Type of auditor’s report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

☐ Yes ☒ No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I
84.027/84.173	Special Education Cluster

Dollar threshold use to distinguish between type A and type B programs:

\$ 300,000.00

Auditee qualified as low-risk auditee?

☐ Yes ☒ No

**SECTION II – FINANCIAL STATEMENT FINDINGS**

There were no current year findings.

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

There were no current year findings.

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN  
STATUS OF PRIOR YEAR FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2005

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2004-1) Special Education Cluster (CFDA #84.027//84.173)

<u>Specific Requirement:</u>	Allowable Cost/Cost Principles.
<u>Condition:</u>	The District did not complete the time certifications required for employees working solely on a single Federal award or cost objective.
<u>Criteria:</u>	The cost principles of OMB Circular A-87 require, "Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee".
<u>Effect of Condition:</u>	Salaries and wages charged to the program could be disallowed.
<u>Cause of Condition:</u>	The cause of the condition was the lack of knowledge of the requirement of the Circular in regards to the need for time certification.
<u>Recommendation:</u>	The District should develop a standard time certification form and have the appropriate employee or other supervisory employee complete the certifications every six months.
<u>Status:</u>	The District has implemented a standard time certification form and the appropriate employee or other supervisory employee completes the certifications every six months.
<u>Questioned Cost:</u>	None.





# *Lewis & Knopf, CPAs, P.C.*

Serving You with Trust and Integrity

August 24, 2005

To the Board of Education of  
Kearsley Community Schools

In planning and performing our audit of the financial statements of Kearsley Community Schools for the year ended June 30, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect Kearsley Community Schools' ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

The following items that are an immaterial internal control or administrative consideration came to our attention.

## CURRENT YEAR FINDINGS

### 1. Budgets and Budgetary Accounting

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended June 30, 2005, Kearsley Community Schools incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated.

## FUTURE ISSUES

GASB Statement No. 45 was issued in June 2004 and is effective prospectively in three phases in periods beginning after December 15, 2006. For Corunna Public Schools, the effective implementation date must begin by June 30, 2008. OPEB are defined as postemployment benefits other than pensions that employees earn during their years of service but that they will not receive until after they retire. They include all postemployment healthcare benefits. They also include any other type of benefits that are provided separately from a pension plan, such as life insurance, legal services, and any other benefits that the employer may provide. OPEB exclude any non-healthcare benefits provided through a pension plan.

The basic premise of GASB No. 45 is that OPEB are earned and should be recognized when the employee provides services, just like wages or salaries paid at the end of each pay period. But because these benefits cannot be used until the employee is no longer working, they are not paid in cash until a date that may extend well into the future.

The District may wish to begin gathering the nonfinancial information needed to generate their first actuarial valuation of OPEB. Information that will be requested by actuaries will be similar to that used for pension benefit calculations and includes:

- \* Listing of all benefits provided by the OPEB plan—as the terms are understood by the employer and the plan members. (This would be a good time to work with employees to convert unwritten/understood benefits to written policy.)



Kearsley Community Schools

Page 2

August 24, 2005

- \* Past OPEB claims experience for the covered group—as far back as needed to create a “credible” experience database or as far back as data is available. (Actuaries will need to use a database for a comparable entity if the government is not able to generate its own database.)
- \* Census information about individual active and inactive plan participants, including age, sex, length of service, and so forth.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.

This report is intended for the information of Kearsley Community Schools' Board of Education and management and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

*Lewis & Knopf P.C.*

LEWIS & KNOFF, P.C.

CERTIFIED PUBLIC ACCOUNTANTS